International Journal of Applied Research 2022; 8(4): 195-199

International Journal of Applied Research

ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 8.4
IJAR 2022; 8(4): 195-199
www.allresearchjournal.com
Received: 12-01-2022
Accepted: 19-03-2022

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The accounting, budgeting and fiscal impact of COVID-19 on the India

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Abstract
In the context of India's public sector financial management, this article analyses the nature and impact of budgetary responses to the epidemic. When the pandemic hit in March 2020, India's capacity to deal with a new disaster was lacking in every area. The research is based on secondary data that was used to examine the situation of accounting, budgeting, and fiscal policy in developed and emerging market countries during Covid-19. Around the world, the COVID-19 epidemic wreaked havoc on financial markets and the real economy. These exceptional circumstances spurred major monetary and fiscal policy changes. In fiscal year 2020-21, the Gross Domestic Product was expected to fall 7.7%, compared to 4.2 percent growth in fiscal year 2019-20. Due to the reform initiatives enacted by the Centre Government, GDP growth was predicted to rebound substantially in 2021-22. The fiscal response of emerging market economies such as India is weaker than that of advanced nations. Under the Disaster Management Act of 2005, a rigorous lockdown of twenty-one days was imposed, resulting in a rise in unemployment, as well as disruptions to the trade cycle, manufacturing, and service industries. In India, the COVID-19 outbreak has primarily disrupted the economy. As a result, the findings of this study explain how policies such as fiscal policy had a substantial impact during Covid-19.

Keywords: Fiscal policy, COVID-19, India, budgeting, fiscal deficit.

1. Introduction
The coronavirus epidemic wreaked devastation on developed and emerging economies alike. The first case of corona-virus was discovered on January 30th, 2020, and the total number of cases continued to rise, especially during the second wave of the pandemic. Corona virus, which is highly contagious, is spreading across the country and beyond the world. In relation to the pandemic, In India, the COVID-19 outbreak has primarily disrupted the economy. Because of this, the government implemented a twenty-one-day nationwide lockdown in the country under the Disaster Management Act of 2005. The country's lockdown results in a drop-in economic activity.

"According to Acuité Ratings, over the first 21 days of the shutdown, the Indian economy was estimated to lose over 32,000 crore (US$4.2 billion) every day. According to Barclays, the cost of the first 21 days of the closure, as well as the two shorter ones before that, will reach roughly 8.5 lakh crore (US$110 billion)".

"India's growth fell to 3.1 percent in the fourth quarter of fiscal year 2020, according to the Ministry of Statistics. The drop is mostly due to the impact of the coronavirus pandemic on the Indian economy, according to India's Chief Economic Adviser".

Furthermore, India has been experiencing a pre-pandemic downturn, according to the World Bank, and the current pandemic has "exacerbated pre-existing fears about India's economic prospects." The World Bank and rating agencies initially reduced India's growth prediction for FY2021.

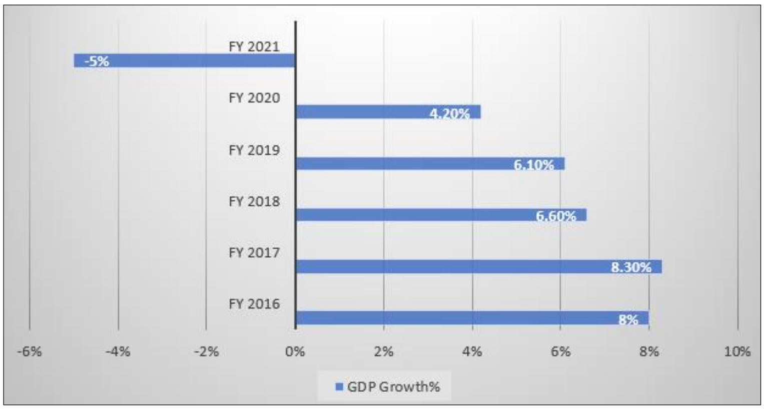
1.1 Slowdown in the lead-up to the outbreak
India, too, had been experiencing a pre-pandemic slowdown. Even before the epidemic, India's growth has been declining since FY 2018–19, from 8% in Q4 FY18 to 4.5 percent in

Q2 FY20. The International Monetary Fund cut India's GDP predictions for 2019 and 2020 in January 2020, even before the country's lockdown or reactions to the outbreak.
Moody's Investors Service (Moody's) lowered its 2020 GDP growth forecast for India from 5.3 percent to 2.5 percent on March 27. India's growth rate has been lowered by Fitch Ratings to 2%. In addition, 'India Ratings & Research' reduced their FY21 forecast to 3.6 percent. India's growth for fiscal year 2021 was downgraded by the World Bank and rating agencies in April 2020, with the lowest results in three decades since the country's economic liberalisation in the 1990s. India's GDP is anticipated to increase 1.5 percent to 2.8 percent in FY21, according to a World Bank report on South Asia released on April 12, 2020. The pandemic has "amplified pre-existing threats to India's economic prospects," according to the World Bank research.
The IMF's prediction of 1.9 percent GDP growth for India in FY21 remained the highest among G-20 countries in mid-April. India's GDP would grow between 0.9 and 1.5 percent in FY21, according to the Confederation of Indian Industry (CII). Several firms reduced their GDP forecasts for FY21 after India's economic package was announced.

Table 1: GDP predictions for FY21

SN	Agency	Estimate
1.	"Bernstein	-7%
2.	ICRA	-5%
3.	Goldman Sachs	-5%
4.	Nomura	-5%
5.	Fitch	-5%
6.	SBI	-4.70%
7.	CARE Rating"	-1.5% -1.6%

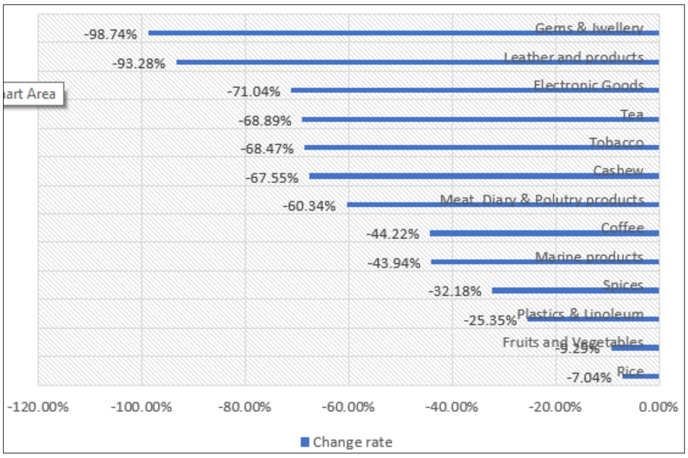
Source:https://en.wikipedia.org/wiki/Economic_impact_of_the_COVID-19_pandemic_in_India#Pre-COVID_19_growth



Source: https://en.wikipedia.org/wiki/Economic_impact_of_the_COVID-19_pandemic_in_India#Pre-COVID_19_growth

Fig 1: India's GDP growth rate since FY16

India's exports declined 36.65% year over year in April 2020, while imports plummeted 47.36 percent.
When compared to the same period previous year, India's exports fell across a variety of sectors in April 2020.



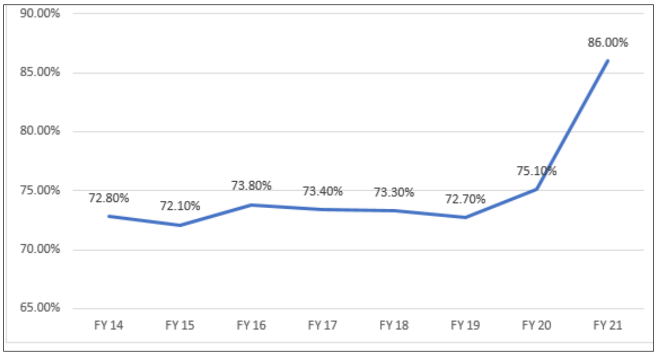
Source: pib.gov.in. Ministry of Commerce & Industry

Fig 2: Chart of Commerce & Industry

1.2 Covid-19 Budgetary Responses:
In order to reduce such risks, fiscal and monetary policy coordination is essential. The budget deficit in the Budget 2021-22 increased to 9.5 percent of GDP against the backdrop of macroeconomic uncertainty during the covid19 epidemic. This is significantly higher than the 3% target for fiscal deficit to GDP ratio.
In the event of a pandemic, there is a reassessment of whether maintaining a quantitative "ought to be" fiscal deficit to GDP of 3% is growth-enhancing.
The road map was also established in the 2012-22 budget, with the goal of reducing the extra deficit from 9.5 percent of GDP in FY 21 to 4.5 percent in FY 26. The high fiscal deficit-to-GDP ratio was not entirely due to increased

spending priorities to combat the pandemic (Chakraborty, 2021). The fiscal deficit-to-GDP ratio has risen as a result of a number of variables, including revenue uncertainty, stimulus-related spending, and the contraction of (denominator) GDP, as well as the Indian government's initiative to improve budget transparency.

A portion of off-budget borrowings was incorporated into the fiscal deficit in the latest Budget 2021-22, increasing budget transparency. The definition of fiscal deficit does not include off-budget obligations incurred through public sector undertakings. Budget 2021-22, on the other hand, does not include a broader definition of deficit known as "Public Sector Borrowing Requirement (PSBR)," which includes all borrowings made by public sector businesses. An Annexure to the budget documents contains the details of a significant amount of additional borrowing. The Budget 2021-22 only covers a portion of these borrowings.



Source: CMIE, Indiabudget.gov.in

Fig 3: Government Debt to GDP

2. Literature Review

Author/Year	Description
BDO, (2020) [2]	The Covid-19 pandemic has triggered a crisis in health, education, professions, and other social phenomena. Though the entire impact of Covid-19 has yet to be felt, the health and economic sectors have already been affected. According to the current scenario, the pandemic altered the workplace (virtual) and shifted the attention of accountants to crisis management.
Albitar *et al.*, 2020 [3]	During this pandemic, organisations face issues such as the fear of bankruptcy and insolvency, which motivates them to take actions such as manipulating earnings, and because professionals operate remotely, upholding professional norms of behaviour such as honesty has become a burden.
Prof. Rajankumar Ghosh (2020) [1]	In his study, "Management of the Covid-19 Pandemic in Gujarat," he attempted to summarise the numerous activities and steps done by the Gujarat government in response to the Covid19 issue. Because the crisis is still going on, it's difficult to know what to do. This report discusses the state of public health, law and order, food and other essential commodities supply, migrant labour, and finally, stakeholder experiences with administration.
Prof. Saratkumar Malik, (2021)	In his article "Policy Response to Limit the Impact of Covid-19 Fiscal, Monetary, and Security Market Regulation," he discusses the strategies that were implemented in a G20 country during the pandemic (group of 20 countries). The paper also discusses the fiscal, monetary, and securities market policies that have been implemented to help the country's economy get back on track.

3. Objective

The purpose of this study is to examine the accounting, budgeting, and fiscal impact of Covid-19 on India, as well as assess fiscal deficit patterns over the last decade (2011 – 2021)

4. Research Methodology and Data Sources

The purpose of this research is to examine India's pre-pandemic economic situation. Researchers, economists, policymakers, technocrats, fund managers, and other professionals' viewpoints are gathered and analysed via publications, comments, blogs, papers, speeches, and other sources. The relevant data and information were gathered from a variety of websites, including those of news organisations, financial firms, government departments, and so on. Using Google search, we were able to find expert comments as well as information on economic and financial aspects on a variety of websites. As a result, the article employs both quantitative and qualitative in nature to draw conclusions and make observations about the Indian economy's pandemic situation.

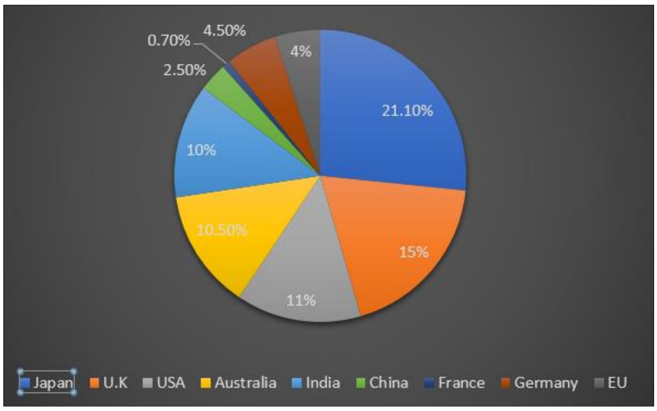
5. Observation and Analysis

Emerging market economies are distinguished by a number of factors, the most important of which is a country's Gross Domestic Product, which is severely harmed during a pandemic. In this table and graph, we examine the total quantity and percentage of Gross Domestic Product of developed and developing countries during Covid-19.

Table 2: The impact of covid-19 Country GDP

Country	Amount	Total % of GDP
Japan	117.1 Trillion	21.1
U.K	48.7 Billion	15
USA	2.3 Trillion	11
Australia	208.7 Billion	10.5
India	1.7 Trillion	10
China	2.6 Trillion	2.5
France	16.5 Billion	0.7
Germany	156 Billion	4.5
EU	540 Billion	4

Source: IICA, Report on Policy response to limit the impact of covid-19 Fiscal, Monetary, and securities regulations



Source: IICA, Report on Policy response to limit the impact of covid-19 Fiscal, Monetary, and securities regulations

Fig 4: Total % of GDP

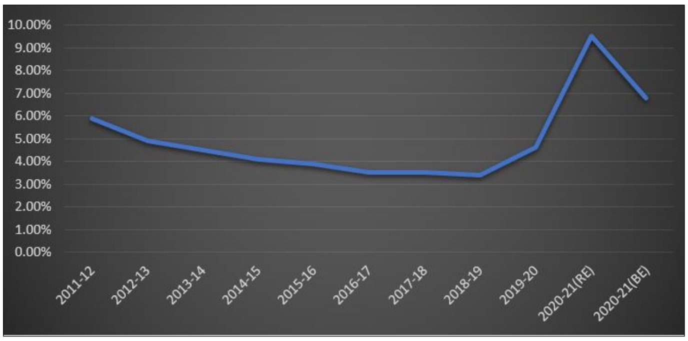
The graph above depicts the total proportion of GDP in various nations in covid-19. Various countries have been classified as advanced economies or emerging economies. According to the graph above, Japan spent the most money, totalling 117.1 trillion dollars, or 21.1 percent of its GDP, to mitigate the effects of Covid-19. The United Kingdom came in second, spending 48.7 billion pounds, or 15% of its GDP. In the case of the United States of America, fiscal spending accounted for 11% of total GDP. Australia and Germany, for example, spent 10.5 percent and 4.5 percent of GDP, respectively. Due to the influence of Covid-19, the European Union spent slightly less than Germany. France spent barely 0.7 percent of its GDP throughout the pandemic. Developing countries such as India and China have spent a total of Rs 117 trillion, or 10% of GDP, while China has spent a total of Rs 2.6 trillion, or 2.5 percent of GDP, to combat the impact of Covid-19.

India's current fiscal deficit (during covid-19)

Table 3: India's Gross Domestic Product (GDP) Fiscal Deficit Trends during Covid-19:

Year	Total % of GDP
2011-12	5.9
2012-13	4.9
2013-14	4.5
2014-15	4.1
2015-16	3.9
2016-17	3.5
2017-18	3.5
2018-19	3.4
2019-20	4.6
2020-21(RE)	9.5
2020-21(BE)	6.8

Source: The Economic Survey of India 2020-2021



Source: The Economic Survey of India 2020-2021

Fig 5: Trends of Fiscal Deficit of Gross Domestic Product during Covid-19

The graph above depicts the budget deficit trends over the previous ten years. i.e., from fiscal year 2011-12 through fiscal year 2020-21. The fiscal deficit was 5.9% of GDP in 2011, but it was reduced to 4.9 percent in 2012-13, and then to 4.5 percent of GDP in 2013-14. This downward trend is expected to continue in 2018-19. It can also be claimed that the budget deficit has remained between 3.5 percent and 6% of GDP on average from 2011 to 2018. The fiscal year 2019-20 saw an increase in GDP from 3.5 percent to 4.6 percent.

Low tax income of Rs 20.1 trillion vs a projected amount of Rs 21.63 trillion, a shortfall of about Rs 1.5 trillion, was one of the causes of the widening budget imbalance.

The fiscal deficit was revised to 9.5 percent of GDP, about double the previous year's estimate for 2019-20. The cause for the increase is a rise in government spending for various sectors affected by Covid-19, which has resulted in an increase in the budget deficit. The budget forecast for fiscal year 2020-21 was 6.5% of GDP.

6. Conclusion and Suggestions

According to reports, Covid-19's legacy will be ambiguous, but it is obvious that the international economy will look different than it did before Covid-19. A review of the fiscal rules and the financing structure of the fiscal deficit has become necessary in light of the shortage of fiscal space caused by revenue concerns. In the event of a pandemic, a shortage of fiscal freedom could have an impact on expenditure requirements, affecting the economy's long-term recovery.

The economic ramifications are determined by how much long-term harm is done to the real economy, especially if the lockdown is relaxed prematurely and haphazardly, resulting in recurrent waves of infection. There has been a lot of discourse in the media about a trade-off between public health and economic damage, but more COVID-19 waves owing to public health inaction would scare productive capacity even more. These will be difficult enough for most countries; for India, they will add to the state's capability being eroded by a decade of public spending cuts.

Not only have emergency steps been taken to combat the virus or pandemic, but also to provide disaster assistance and ensure that people do not go hungry and businesses do not go bankrupt. The country's deficit or debt may rise as a result of the excessive fiscal measures. For example, the release of vaccines to prevent COVID-19 infections since the end of 2020 has substantially aided the recovery of the economic sector; however, not all sectors or countries will recover at the same rate. The ability of countries to promptly vaccinate a majority of their population will be critical to recovery.

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